



Saratoga Springs Public Library Claims Processing

Report of Examination

Period Covered:

July 1, 2013 — June 30, 2014

2014M-351



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Library Officials and Corrective Action	2
CLAIMS PROCESSING	4
Recommendations	5
APPENDIX A Response From Library Officials	6
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2015

Dear Library Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and the Board of Trustees governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Saratoga Springs Public Library, entitled Claims Processing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Saratoga Springs Public Library (Library) is located in the City of Saratoga Springs. It is a public school library and serves the approximately 45,700 residents of the Saratoga Springs City School District (District). The Library is part of the Southern Adirondack Library System and is governed by a five-member Board of Trustees (Board) elected by District residents. The Board is responsible for the general management and control of the Library's financial affairs. The Board appointed a Library Director (Director), who is responsible for the Library's day-to-day administration. The Director is assisted by an account clerk, who is responsible for maintaining the accounting records, reconciling bank statements, processing bills and preparing various financial reports.

The Library's budgeted appropriations were approximately \$5.5 million for the fiscal year ending June 30, 2014. Funds to operate the Library come primarily from property taxes, and increases in the annual tax levy must be approved by a vote of District residents.

Objective

The objective of our audit was to evaluate the adequacy of the Library's internal controls over claims processing. Our audit addressed the following related question:

- Are internal controls over claims processing adequately designed and operating effectively?

Scope and Methodology

We examined the Library's controls over claims processing for the period July 1, 2013 through June 30, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

Comments of Library Officials and Corrective Action

The results of our audit and recommendations have been discussed with Library officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Library officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and

recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Director's office.

Claims Processing

The Board is responsible for establishing an adequate system of internal controls over processing claims.¹ To meet this responsibility, the Board must establish policies and procedures that ensure each claim contains sufficient supporting documentation to determine compliance with Library policies, whether the goods or services have been received and whether the amounts claimed represent actual and necessary expenditures. In addition, the Board is responsible for thoroughly and deliberately auditing all claims prior to approving them for payment. Each claim should be assigned a sequential number and be included on an abstract² presented to the Board for audit. Approval of the abstracts should be documented in the Board minutes, and Board members should sign or initial the claims to further indicate approval. Also, the Board may authorize the payment of recurring expenses in advance of its audit and approval, such as utility bills and postage, but must formally approve such claims at the next Board meeting.

Internal controls over the claims audit process were not appropriately designed. The Director or department heads are responsible for signing and dating claims to indicate the goods or services being billed for have been received, which is a good internal control. However, the Board assigned the responsibility to audit and approve claims for payment to the Board President. This is not a good practice because the entire Board is not auditing or approving claims. Further, while the account clerk prepares an abstract of claims for the Board, the abstract does not include payments made in advance of the Board President's audit and approval, and the Board does not take any action to approve the abstract. Also, the Director is paying various claims in advance of audit and approval for payment; however, the Board did not pass a resolution authorizing the payment of eligible claims in advance of audit.

We reviewed 177 payments³ totaling \$309,724 and found that all payments were for purchases that appeared to be for appropriate Library purposes and were supported by itemized invoices. However,

¹ Claims are bills or invoices submitted by vendors requesting payment for goods or services.

² An abstract is a list of claims including claim numbers, vendor names and billed amounts.

³ We randomly selected two months and reviewed all non-payroll disbursements that cleared the Library's bank account during those months (January and May 2014). We then traced those payments to each respective claim associated with them.

49 claims totaling \$83,757 did not include signatures from the Director or department heads to indicate the goods or services were actually received. All 177 claims were reviewed and approved by the Board President. However, the abstracts provided to the Board did not include 29 claims totaling \$77,177, and the Board did not take any action to approve these claims. The claims not listed on the abstracts included 25 claims totaling \$74,136 that were paid by the Director prior to the Board President's approval. Furthermore, even if the Board approved a resolution authorizing payment of eligible claims prior to audit, 22 of these 25 claims, which totaled \$73,742, were not for goods or services eligible for pre-payment because they included payments for such things as credit card bills and insurance premiums.

When claims are not signed by a department head or the Director, there are no assurances the goods or services were actually received. Furthermore, having a single member of the Board, in lieu of the full Board, responsible for reviewing and approving claims for payment increases the risk of inappropriate and incorrect payments occurring and not being detected. Lastly, allowing the Director to pay claims prior to the Board's audit and approval further increases the risk for inappropriate payments being made and not detected.

Recommendations

The Board should:

1. Ensure that all claims contain the signature of the Director or department heads to indicate the goods or services being billed for have actually been received.
2. Audit and approve all claims as the entire Board and not delegate such responsibility to a single Board member.
3. Ensure that its audit and approval of claims for payment is clearly documented by evidence in the minutes and noted on the claims.
4. Pass a resolution authorizing the payment of eligible claims in advance of Board audit if it desires to provide such authority to the Director.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

The Library officials' response to this audit can be found on the following pages.



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February 10, 2015

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801-4396

Dear Mr. Leonard,

Saratoga Springs Public Library is in receipt of the Draft Audit Report: Claims Processing, for the period of July 1, 2013-June 30, 2014. We appreciate the guidance of the Office of the State Comptroller regarding the library's claims processing and auditing, and agree substantially with the recommended improvement to our procedures.

Each year, the library undergoes an independent financial audit, and has developed internal controls that segregate duties such as administrative approval of claims, board approval of claims, preparation of checks, and signing of checks, that we feel have safeguarded expenditures of public funds, and which have satisfied our auditors. Indeed, the draft audit report indicates that all payments reviewed were for appropriate library purposes and supported by proper documentation. Nevertheless, we recognize that some changes to our internal controls could provide added assurance that funds are properly expended, and as stewards of the public trust, that is a concept which we heartily endorse.

A particular area for improvement pointed out by the draft report regards pre-audit payment of some bills. In most of these instances, the primary purpose of pre-payment was to avoid incurring late charges; and other pre-payments were made as a result of an interpretation of guidance from the OSC regarding allowable pre-payments of some expenditures, especially those related to payroll deductions and withholdings. Each expenditure was supported with proper documentation, and subsequently approved by the board president. Based on the draft report, and our conversations with OSC auditors, we have taken immediate action to improve these practices, as well as to improve our parliamentary procedure memorializing board approval of all expenditures in meeting minutes.

Attached are specific responses to the recommendations included in the draft audit report, which, along with the above, will serve as our corrective action plan. We strive to operate Saratoga Springs Public Library according to best practices, and to the highest ethical and professional standard. Your guidance in helping us achieve this goal is appreciated.

Sincerely,

Kenneth J. Bolleerud

A. Issac Pulver

Recommendation 1: The Board should ensure all claims contain the signature of the Director or department heads to indicate the goods or services being billed for have actually been received.

Plan of Action: In the past, receipt of items such as office supplies and library materials were verified by senior clerical staff before bills were submitted directly to the board president for approval. Effective, July 1, 2014, an additional level of administrative approval of all such claims has been instituted.

Implementation Date: July 1, 2014

Person Responsible for Action: The Library's Board of Trustees, Library Director, and Department Heads shall be responsible for implementing this plan of action.

Recommendation 2: The Board should audit and approve all claims as the entire board and not delegate such responsibility to a single Board member.

Plan of Action: Under the Board's current procedure, the only Trustee who routinely reviews all the underlying documentation for all claims is the President. The Board will establish a procedure whereby one different Trustee, in addition to the President, will review and audit all the underlying claims documentation each month. Under this plan every board member will audit at least two month's claims in the course of a year. In addition, the Board will continue its current practice of distributing the abstract of all claims to all Trustees, and transaction details of all claims to the President and Treasurer.

Implementation Date: February, 2015.

Person Responsible for Action: The Library's Board of Trustees, Library Director, and Account Clerk shall be responsible for implementing this plan of action.

Recommendation 3: The Board should ensure that its audit and approval of claims for payment is clearly documented by evidence in the minutes and noted on claims.

Plan of Action: Approval of financial reports will clearly be identified as action items on meeting agendas, and actions will be memorialized in meeting minutes. A separate action explicitly approving payment of claims will also be added to the agenda and memorialized in meeting minutes.

Implementation Date: Action items approving financial reports have been included on the agenda and in minutes since July 1, 2014. The action item explicitly approving payment of claims will be added to the agenda in February, 2015.

Person Responsible for Action: The Library's Board of Trustees, Library Director, and Account Clerk shall be responsible for implementing this plan of action.

Recommendation 4: The Board should pass a resolution authorizing the payment of eligible claims in advance of Board audit if it desires to provide such authority to the director.

Plan of Action: The Board will pass a resolution authorizing the Director to pay eligible claims in advance of Board audit.

Implementation Date: The board will pass a resolution in February, 2015, and subsequently at its organizational meeting in July of each year.

Person Responsible for Action: The Library's Board of Trustees shall be responsible for implementing this plan of action

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Library's internal controls put in place by officials to safeguard Library assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During our initial assessment, we interviewed Library officials, performed limited tests of transactions and reviewed pertinent documents, such as Library policies and procedures, Board minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those areas most at risk. We determined that risk existed within claims processing. Therefore, we examined the internal controls over claims processing for the period July 1, 2013 through June 30, 2014.

To accomplish the objective of this audit and obtain valid and relevant audit evidence, our procedures included the following:

- We assessed relevant policies and procedures to determine whether they were adequate.
- We randomly selected two bank statements (January and May 2014) and selected all non-payroll claims disbursements and reviewed them to determine whether they were supported by an itemized invoice or receipt, contained evidence of departmental approval and receipt of goods and services and contained evidence of proper audit and approval.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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